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ABSTRACT

The General Accounting Office examined employer-provided educational assistance. The study focused on educational assistance provided under section 127 of the Internal Revenue Code (which allows employees to exclude employer-provided educational assistance from their gross income), characteristics of employers providing educational assistance and employees eligible for/receiving educational assistance, and other pertinent tax provisions. Data were complied from the Internal Revenue Service (IRS), the Department of Education's National Postsecondary Student Aid Study, and the Department of Labor's Bureau of Labor Statistics reports. According to IRS data, employers annually filed more than 3,200 returns reporting information about educational assistance provided to employees under section 127. The total dollar amount of employer-reported section 127 educational assistance increased from $525.3 million for 1992 to $691.3 million for 1994. IRS data further showed that approximately 900,000 employees received employer-provided educational assistance annually in 1992-1994. Few employees eligible for educational assistance under section 127 actually received it, however. Three tax provisions besides section 127 were identified and discussed. (Fourteen tables/figures are included. Appended are the following: examples illustrating IRS' determination of deductibility of job-related educational expenses as business-related expenses; technical study methodology information; additional information about employees; and list of major contributors to the report.) (MN)

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ED 403 419

United States General Accounting Office

GAO

Report to the Chairman
Committee on Ways and Means
House of Representatives

December 1996

TAX EXPENDITURES

Information on Employer-Provided Educational Assistance

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GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-274817

December 19, 1996

The Honorable Bill Archer
Chairman, Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information about employer-provided educational assistance between 1992 and 1994 under section 127 of the Internal Revenue Code (IRC).[1] In this report, we provide information about employer-provided educational assistance, including the characteristics of employers providing educational assistance, such as the number of providers and their size, and employees eligible for and receiving it, such as the number of recipients and their level of study. As requested, we also identify other tax provisions related to employer-provided educational assistance and discuss the differences between them and section 127.

To compile the profile of educational assistance providers and recipients, we analyzed data from the Internal Revenue Service (IRS), the Department of Education's National Postsecondary Student Aid Study (NPSAS), and Department of Labor's Bureau of Labor Statistics (BLS) reports. Our discussion of tax provisions related to employer-provided educational assistance is primarily based on our review of relevant sections of the Internal Revenue Code and IRS and Department of the Treasury rulings and regulations.

Background

Employer-provided educational assistance refers to educational expenses, such as courses, tuition, and books, that are paid for either directly by the employer or indirectly through reimbursement to employees. Under section 127 of the IRC, the amount for educational assistance that employees receive from their employers is generally excludable from employees' gross income. Generally, the assistance may be for any type of course, except those related to sports, games, or hobbies, and covers such expenses as tuition, books, supplies, and equipment.

Section 127 Was Enacted in 1978

Section 127 went into effect in 1979 with passage of the Revenue Act of 1978. Three major reasons for the enactment of section 127 were cited in a

[1]Section 127 expired Dec. 31, 1994, and was extended until June 1997 in Aug. 1996 as part of the Small Business Job Protection Act of 1996.

June 1988 Department of the Treasury report: (1) to reduce the complexity of the tax system, (2) to reduce possible inequities among taxpayers, and (3) to provide opportunities for upward mobility for less educated individuals.[2] This report also explained that prior law required individuals to pay income taxes on the amount paid for training for new jobs or occupations if an employer had paid for it, a situation that was considered inequitable for those least able to pay but most in need of the education.

Since section 127 was first authorized, it has expired and has been extended eight times. Several changes were made by these extensions, including setting an annual limit on the amount that can be excluded from employees' gross income (currently $5,250)[3] and establishing an annual reporting requirement (Form 5500).[4] Based on our 1989 report which noted an absence of data on the use of employer-provided educational assistance, IRS developed Schedule F to supplement Form 5500.[5] This form and schedule require employers to report information on (1) the number of employees eligible for such assistance, (2) the number of employees who received such assistance, and (3) the value of the assistance provided.

The series of expirations and extensions of section 127 has contributed to problems with the quality of available IRS data. For example, the 1993 extension was not enacted until several months after section 127 had expired and the tax filing year had ended. Companies experienced uncertainty about how and whether to report educational assistance as employee income and withhold taxes from it. Some companies included assistance in employees' income and withheld taxes, others did not. Ultimately, the extension was passed retroactively, which resulted in those companies that had reported the assistance as employee income having to refile employee wage statements and tax returns. Because of this, IRS has acknowledged that some employers may not have filed the required IRS forms, thus information about section 127 reported to IRS may not be complete. However, IRS officials told us that they believe most employers complied with the reporting requirements during the last expiration period.

[2]See Report to the Congress on Certain Employee Benefits Not Subject to Federal Income Tax, Department of the Treasury, June 1988.

[3]Section 1162(a)(1) of the Tax Reform Act of 1986 (P.L. 99-514) raised the annual limit to $5,250 and required employers to report the number of highly compensated employees participating in the program; it also extended the program to 1987.

[4]This was established as an annual reporting requirement under section 6039D of the IRC.

[5]See Tax Policy: Insufficient Information to Assess Effect of Tax Free Education Assistance (GAO/GGD-89-76, June 1989).

Other Tax Treatment of Educational Assistance

Aside from section 127, three tax provisions generally determine the tax treatment of educational assistance: Section 117—Qualified Scholarships; Section 132—Certain Fringe Benefits; and Section 62(a)(2)(A)—Reimbursed Expenses of Employees. Under section 117, educational assistance provided by qualified educational institutions to employees and their dependents can be excluded from employees' gross income. Under section 132, employees can exclude employer-provided educational assistance from their gross income if it qualifies as a working condition fringe benefit. A working condition fringe benefit is any property or service an employer provides to an employee that, had the employee paid for such property or services, the employee could deduct the payment from his/her income as a business expense. Under section 62, employees can exclude educational assistance from their income if the assistance is provided as part of an employer's "accountable plan," which requires that assistance be business-related, expenses be documented, and employees be required to return any excess payments.[6] These three provisions do not have a dollar limit on the amount of assistance that can be excluded.

Otherwise, employer-provided educational assistance must be included in employees' gross income. Under certain conditions, however, employees may deduct educational assistance that has been included in their income. Decisions as to whether such assistance included in an employee's gross income can be deducted depend on whether the assistance qualifies as a business expense under section 162 of the IRC. Section 162 discusses the circumstances under which an employer's educational assistance expenses are related to an employee's job and therefore are deductible.[7] It allows individuals who itemize deductions on their tax returns to deduct qualifying job-related educational expenses and other miscellaneous itemized deductions from gross income. Moreover, qualifying educational expenses and other miscellaneous itemized deductions are deductible only to the extent that they exceed 2 percent of the individual's adjusted gross income.

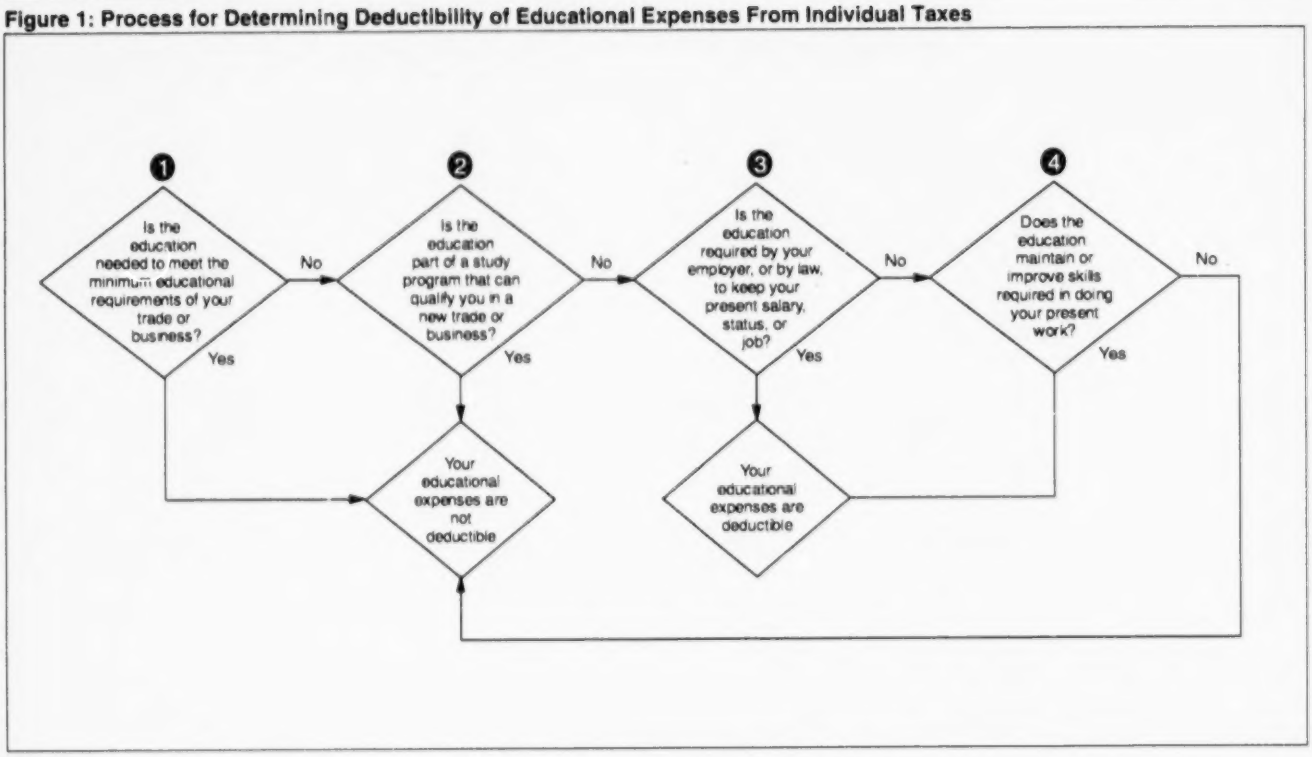
Figure 1 illustrates an IRS aid to assist taxpayers in determining whether educational expenses are deductible.[8]

[6]See page 18 for more information about accountable plans.

[7]See app. I for IRS examples of qualifying job-related expenses.

[8]See IRS Publication 508, Educational Expenses.

Figure 1: Process for Determining Deductibility of Educational Expenses From Individual Taxes


1
Is the education needed to meet the minimum educational requirements of your trade or business?
No
Yes
2
Is the education part of a study program that can qualify you in a new trade or business?
No
Yes
3
Is the education required by your employer, or by law, to keep your present salary, status, or job?
No
Yes
4
Does the education maintain or improve skills required in doing your present work?
No
Yes
Your educational expenses are not deductible
Your educational expenses are deductible

Source: IRS Publication 508, Educational Expenses

Results in Brief

According to IRS data, employers annually filed over 3,200 returns that reported information about educational assistance they provided their employees during 1992 through 1994.[9] IRS officials told us that this included most of the employers who provided section 127 assistance but that some employers may not have filed because of confusion resulting from the series of section 127 expirations and extensions.

The dollar amount of education assistance employers reported increased steadily over the 3 years from $525.3 million for 1992 to $691.3 million for 1994. However, the increase may be related to the increase in the percentage of employer returns that reported the amount of assistance to IRS for the 3-year period, from 65 percent for 1992 to 80 percent for 1994.

[9]IRS provided data from all 1992 and 1993 returns and data from 1994 returns it had collected and processed through May 31, 1996. IRS officials told us they considered the 1994 returns to represent about 90 percent of the 1994 returns they ultimately expect to receive.

Employers filing returns varied in size, type of business, and amount of assistance provided. Large employers, those employing 250 or more employees, provided 99 percent of the dollar amount of the reported assistance to 98 percent of the employees who received it.

IRS data showed that about 900,000 employees received employer-provided educational assistance annually during 1992 through 1994. However, few employees eligible for educational assistance under section 127 actually received it. Data we reviewed did not provide information that explained the level of participation. The percentage of the eligible employees that employers reported as having received educational assistance varied from 8 percent to 9 percent for the 3-year period, according to IRS data.[10]

According to NPSAS data, 74 percent of employees receiving educational assistance in academic year 1992 to 1993 were undergraduates. About 64 percent of the undergraduates who identified their occupation were in clerical or technical occupations. Of employees receiving assistance who were graduate students and identified their occupation, about 89 percent were in professional, manager/ administrative, or teaching occupations.

Generally, four tax provisions apply to employer-provided educational assistance: Sections 127, 117, 62, and 132.[11] These sections allow employers to provide educational assistance to their employees and to deduct the cost of the educational assistance provided as a business expense in determining their tax liability. The four provisions also allow employees receiving the assistance to exclude the value of qualifying assistance from their federal gross income.

The major differences between section 127 and the three other provisions are related to the type of education supported, employee eligibility, limits on the value of assistance provided, and the ease of administration. Unlike sections 62 and 132, section 127 makes no distinction between job-related and nonjob-related education and is administratively less burdensome. Sections 127, 62, and 132 apply to all employees. Section 117 applies only to employees of qualified educational institutions and their spouses and dependents, although both job-related and nonjob-related education are covered. Section 127, unlike the other tax provisions, has a $5,250 cap on the amount of educational assistance that can be excluded from income.

[10]Employers determine who is eligible for educational assistance.

[11]Sections 62 and 132 also require referring to section 162, which delineates what constitutes job-related education and what is required for it to be deductible as a business-related expense.

Objectives, Scope, and Methodology

Our objectives were to provide information about (1) employer-provided educational assistance, including the characteristics of employers providing educational assistance and employees eligible for and receiving it, and (2) other tax provisions related to employer-provided educational assistance and how they differ from section 127.

To achieve the first objective, we identified and obtained relevant data. We did this by contacting the IRS, searching the Internet to identify relevant organizations and research, and contacting various associations.

Because no one source of information provided comprehensive data, we used available data from a variety of sources. We relied primarily on data from Form 5500 and Schedule F, provided to us by IRS, and data from NPSAS to develop our profile of employers and employees. We also used information about the eligibility of employees for educational assistance from BLS reports on employee benefits.

The IRS data consisted of information about employers providing educational assistance and employees eligible for and receiving section 127 assistance. Employers reported this information to IRS on Form 5500 and its Schedule F for 1992 through 1994. IRS provided us with a database of these employer returns for 1992 and 1993, and for 1994 returns filed with IRS through May 31, 1996, which IRS officials told us represented 90 percent of the data it expects to receive from employers for 1994. We used these data to develop information about employer characteristics, such as how many programs employers have that offered educational assistance and employer size. We also used these data to identify the number of employees eligible for and receiving this assistance and the dollar amount of the assistance provided.

NPSAS data consisted of information about postsecondary student aid, including section 127 assistance, from postsecondary students, their parents, and educational institutions. The Department of Education's National Center for Education Statistics (NCES) conducted this national study for the academic year 1992 to 1993 and compiled the results in the NPSAS database. We obtained the NPSAS database from the NCES and used the data primarily to develop information on characteristics of employees, such as their level and type of education.

The BLS reports contained estimated data about employee eligibility for educational assistance. This information was collected by BLS as part of its surveys on employee benefits in small, medium, and large private

establishments. These reports were done over a 2-year period: the survey of employee benefits in medium and large private establishments covered 1993, and the survey of employee benefits in small private establishments covered 1994.

We did not verify the validity or reliability of the data collected by IRS or the other agency study sponsors. Because of the series of expirations and extensions of section 127, some employers may not have filed Form 5500 and Schedule F with IRS as required. Further, not all employers who filed provided all required data on Form 5500 and Schedule F. For example, of the employer returns that reported providing educational assistance, 65 percent reported the amount of assistance in 1992; 74 percent, in 1993; and 80 percent, in 1994. Appendix II includes a list of employer and employee characteristics and the percentage of returns that reported this information for 1992, 1993, and 1994.

In addition, the analyses generated from each of the three different data sources cannot be compared with one another because of variations in data collection methods, definitions, populations covered, and periods covered. Appendix II explains in detail the data sources we used including populations covered, sampling errors as appropriate, and data limitations.

To obtain additional information about the databases and the results of our analyses of them, we interviewed officials from the Department of the Treasury, IRS, the Department of Education, and BLS. We also interviewed officials from selected associations, including the National Association of Independent Colleges and Universities, the American Payroll Association, the American Society for Training and Education, and the Institute for Higher Education Policy.

To achieve the second objective, we reviewed relevant sections of the IRC, and IRS and Department of the Treasury rulings and regulations pertaining to those sections. We also interviewed officials from the Department of the Treasury, IRS, and selected associations.

We did not evaluate the effectiveness of section 127 in promoting employee skills as it was beyond the scope of this assignment.

We did our work from April through July 1996 in accordance with generally accepted government auditing standards. We obtained comments on a draft of this report from IRS. These comments are discussed at the end of this report.

Characteristics of Employers Providing Educational Assistance

According to IRS, for each of the 3 years we reviewed, employers filed over 3,200 returns that reported information about educational assistance they provided their employees under section 127. IRS officials believe that this number included most of the employers who provided section 127 assistance but note that some employers may not have filed because of confusion resulting from the series of section 127 expirations and extensions. The employers included auto manufacturers, hospitals and medical centers, utilities, telecommunications and electronics companies, banks, and other types of businesses.

The dollar amount of educational assistance employers reported increased steadily for the 3-year period we reviewed. It increased from $525.3 million for 1992 to $691.3 million for 1994. This increase may be related to the increase in the percent of employers who reported the amount of assistance to IRS for the 3-year period. For 1992, the first year IRS required employers to report data on Schedule F of Form 5500, employers filed 3,556 returns, 65 percent of which (2,294) reported the amount of educational assistance they provided employees. The reporting rate increased to 80 percent for the 1994 returns for which we have data. Table 1 shows the number of all returns employers filed and the number and percentage of returns that showed the amount of assistance provided, as well as the amount reported, for the 3 years we reviewed.

Table 1: Number of Returns and Number and Percentage of Returns With Dollar Amount of Section 127 Assistance Employers Provided Employees, as Reported to IRS, 1992-1994

Dollars in millions

Year	Total returns filed	Number and percent of returns reporting amount of assistance		Amount of assistance provided
1992	3,556	2,294	65%	$525.3
1993	3,336	2,478	74%	636.4
1994[a]	3,234	2,590	80%	691.3

[a]1994 returns received and processed by IRS through May 31, 1996.

Note: Differences from one year to the next should be interpreted with caution. The percentage of returns reporting the dollar amount of assistance provided employees varied from year to year.

Source: GAO analysis of IRS Form 5500 and related Schedule F data.

On a per-return basis, the total amount of educational assistance and the total number of employees receiving it varied widely for each of the 3 years we reviewed, according to IRS data. For employer returns that reported the amount of educational assistance provided to all employees,

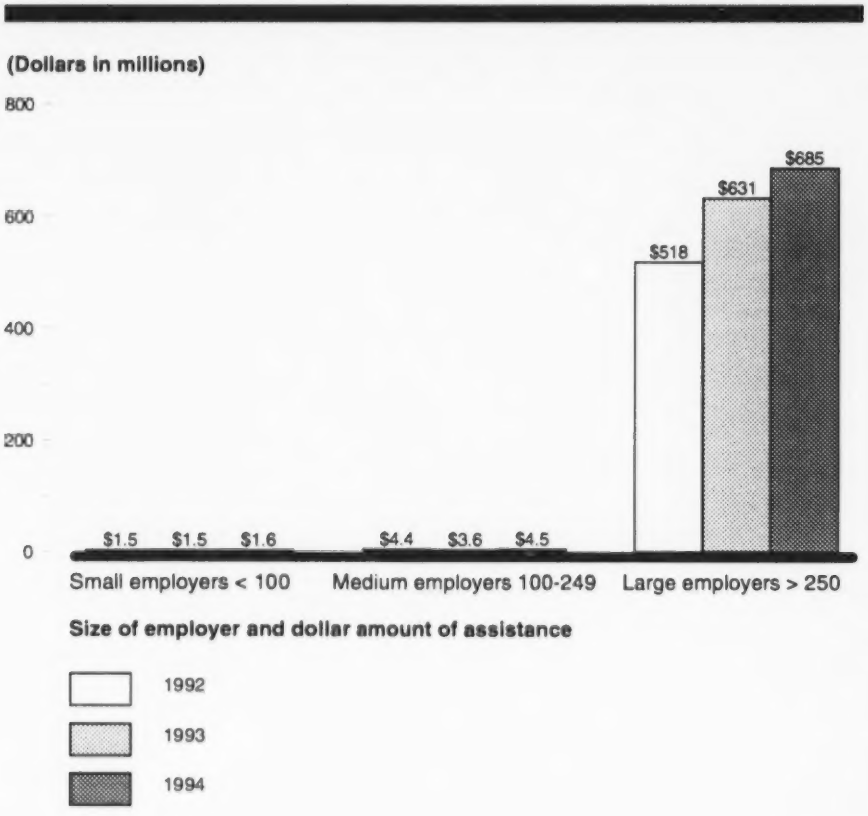
IRS data showed total annual amounts ranging from less than $500 to total amounts of more than $10 million. Of those returns that reported the number of employees receiving educational assistance, the total number of recipients ranged from fewer than 10 to more than 10,000. Overall, employer-provided educational assistance per recipient averaged $1,081 for 1992, $1,046 for 1993, and $1,253 for 1994.

Employers Providing Assistance Varied in Size

According to IRS data, employers providing section 127 assistance ranged in size from those with fewer than 50 employees to those with more than 100,000. Our analysis showed that large employers, those with 250 or more employees, accounted for over 75 percent of the returns that reported the amount of assistance provided annually for the 3-year period we reviewed. These employers provided 99 percent of the dollar amount of section 127 assistance reported to IRS for 1992 through 1994.[12] Figure 2 shows the distribution of the reported dollar amount of section 127 assistance by employer size.

[12]We used BLS's definition of large employers, which is employers with 250 or more employees.

Figure 2: Reported Dollar Amount of Section 127 Assistance Provided, by Employer Size, 1992-1994



Note 1: Small employers: fewer than 100 employees, medium employers: 100 - 249 employees, and large employers: 250 or more employees.

Note 2: Differences from one year to the next should be interpreted with caution. The percentage of returns reporting the dollar amount of assistance provided employees varied from year to year. See app. II.1 for additional information.

Source: GAO analysis of IRS Form 5500 and related Schedule F data.

In Total, Medium and Large Employers Had More Full-Time Employees Eligible for Educational Assistance Than Did Small Employers

According to BLS data, medium and large employers (100 or more employees) in total reported a higher number of their employees were eligible for educational assistance than small employers reported.[13] BLS estimated that 20.8 million full-time employees of medium and large employers and 13.4 million full-time employees of small employers were eligible for job-related educational assistance. It also estimated that 6.3 million full-time employees of medium and large employers were eligible for nonjob-related educational assistance compared to 2 million full-time employees of small employers who were eligible.

BLS estimated the number of part-time employees eligible for educational assistance was almost the same, regardless of employer size. About 1.9 million part-time employees of medium and large employers and 1.9 million part-time employees of small employers were estimated to be eligible for job-related education. BLS also estimated that about 440,000 part-time employees of medium and large employers were eligible for nonjob-related educational assistance compared to almost 400,000 part-time employees of small employers who were eligible. (Additional BLS information on employee eligibility is in appendix III.)

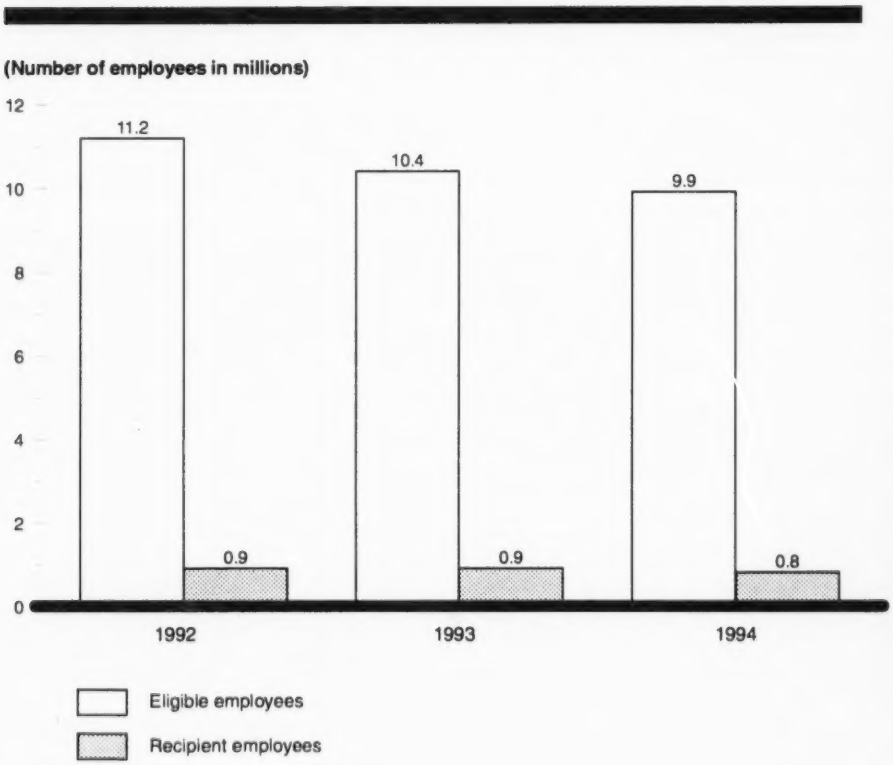
Characteristics of Employees Eligible for and Receiving Employer-Provided Educational Assistance

The number and percentage of employees eligible for employer-provided educational assistance who received it varied slightly for the 3-year period we reviewed, according to IRS data. Employer returns filed with IRS showed that the reported number of employees eligible for assistance under section 127 ranged from 11,208,411 for 1992 to 9,899,354 for 1994 and that about 900,000 employees received assistance in each of the 3 years. The percentage of eligible employees who received educational assistance varied from 8.25 percent for 1992 to 9.11 percent for 1993 to 8.40 percent for 1994. Figure 3 shows the reported number of employees eligible for educational assistance and receiving it.[14]

[13]BLS recognizes that eligibility criteria for educational assistance, such as seniority, vary by employer, and it therefore relies on employers determining employee eligibility.

[14]Note that numbers in Figure 3 are rounded to the nearest 100,000.

Figure 3: Number of Employees Reported to IRS as Eligible for and Receiving Section 127 Assistance, 1992-1994



Note 1: Differences from one year to the next should be interpreted with caution. The percentage of returns reporting the number of employees eligible for assistance and the number of employees receiving it varied from year to year. See app. II.1 for additional information.

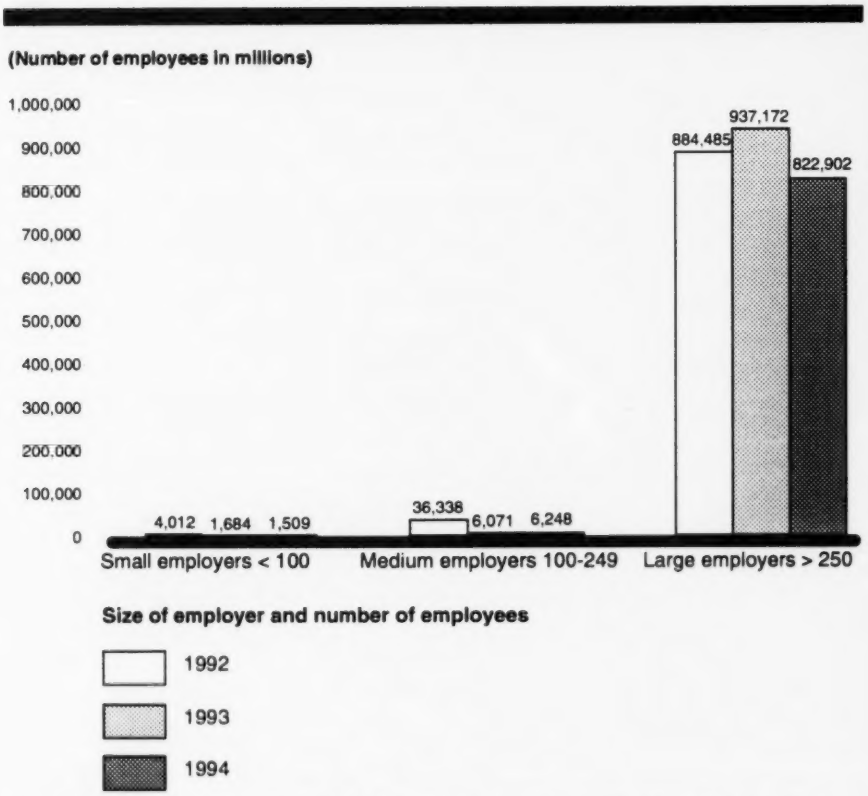
Note 2: Numbers are rounded to the nearest 100,000.

Source: GAO analysis of IRS Form 5500 and related Schedule F data.

Nearly All Section 127 Recipients Worked for Large Employers

In each of the 3 years we reviewed, over 95 percent of the reported recipients of section 127 assistance worked for large employers, according to IRS data. For 1992, employers reported that 96 percent of section 127 recipients worked for large employers. For both 1993 and 1994, employers reported that 99 percent of the recipients worked for large employers. Figure 4 shows the distribution of recipients by employer size.

Figure 4: Number of Reported Section 127 Recipients by Employer Size, 1992-1994



Note 1: Small employers: fewer than 100 employees, medium employers: 100 - 249 employees, and large employers: 250 or more employees.

Note 2: Differences from one year to the next should be interpreted with caution. The percentage of returns reporting the number of recipients varied from year to year. See app. II.1 for additional information.

Source: GAO analysis of IRS Form 5500 and related Schedule F data.

Undergraduate Students Received More Than Half of Total Section 127 Assistance

According to NPSAS data, 74 percent of full-time employees receiving educational assistance in academic year 1992 to 1993 were undergraduates. Our analysis of the NPSAS data showed that about 337,000 of the estimated 456,000 employees who were enrolled in educational institutions, responded to the NPSAS survey, and reportedly received

section 127 assistance were considered undergraduate students.[15] These undergraduates received an estimated $345.9 million in assistance, nearly 60 percent of the estimated $597.3 million provided to all section 127 recipients. Table 2 shows the estimated amount and percentage of section 127 recipients by student level.

Table 2: Estimated Percentage and Dollar Amount of Section 127 Assistance and Number of Recipients, by Student Level, Academic Year 1992-1993

Dollars in millions

	Amount of assistance		Number of recipients	
Undergraduate	$345.9	58%	336,880	74%
Graduate	$251.4	42%	119,210	26%
Total	**$597.3**	**100%**	**456,090**	**100%**

Source: GAO analysis of NPSAS:93 data.

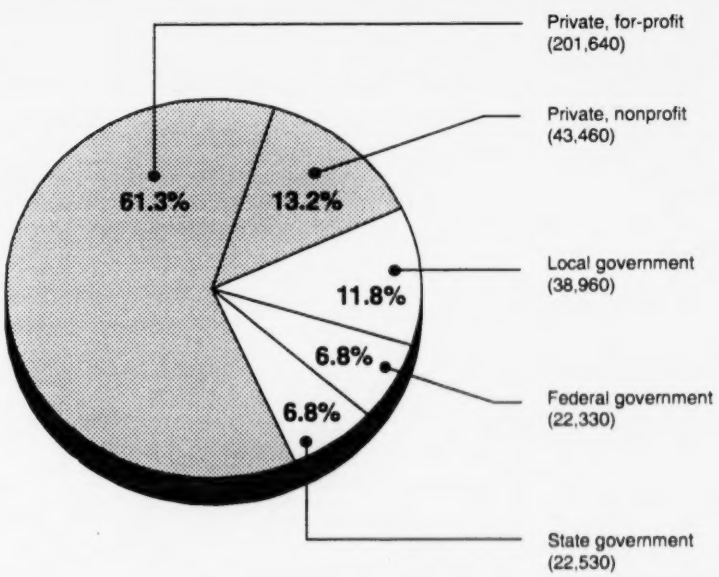
Most Recipients Worked for Private-Sector Employers

Further analysis of the NPSAS data showed that 446,000 (almost 98 percent) of the estimated 456,090 Section 127 recipients identified their employers. The employers of an estimated 329,000 undergraduate employees and 117,000 graduate employees were identified.

Almost 75 percent of section 127 undergraduate recipients who identified their employers worked for private-sector employers. An estimated 202,000 recipients who were undergraduates worked for private sector for-profit employers. Additionally, an estimated 43,000 undergraduate recipients worked for private nonprofit employers. Figure 5 shows the estimated number and percentages of undergraduate recipients by employer type.

[15]The NPSAS data covered employees whose employer-provided educational assistance was for courses only provided by educational institutions. IRS data included all education received by employees, regardless of the source. This difference may explain the discrepancy between the two data sources in the number of employees reported as having received assistance under section 127.

Figure 5: Estimated Number and Percentage of Section 127 Undergraduate Recipients by Employer Type, Academic Year 1992-1993

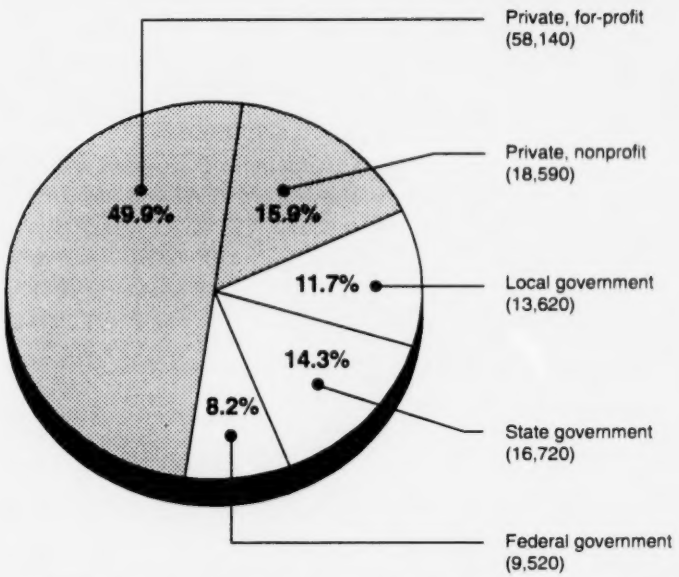


Note: Employers of 328,920 undergraduates were identified for academic year 1992-93.

Source: GAO analysis of NPSAS 93 data.

Over 65 percent of graduate-level section 127 recipients worked in the private sector. More than 58,000 of an estimated 116,000 graduate students worked for private sector for-profit employers, and an estimated 18,000 others worked for private nonprofit employers. Figure 6 shows the estimated number and percentages of graduate recipients by employer type.

Figure 6: Estimated Number and Percentage of Section 127 Graduate Recipients by Employer Type, Academic Year 1992-1993



Note: Employers of 116,590 graduates were identified for academic year 1992-93.

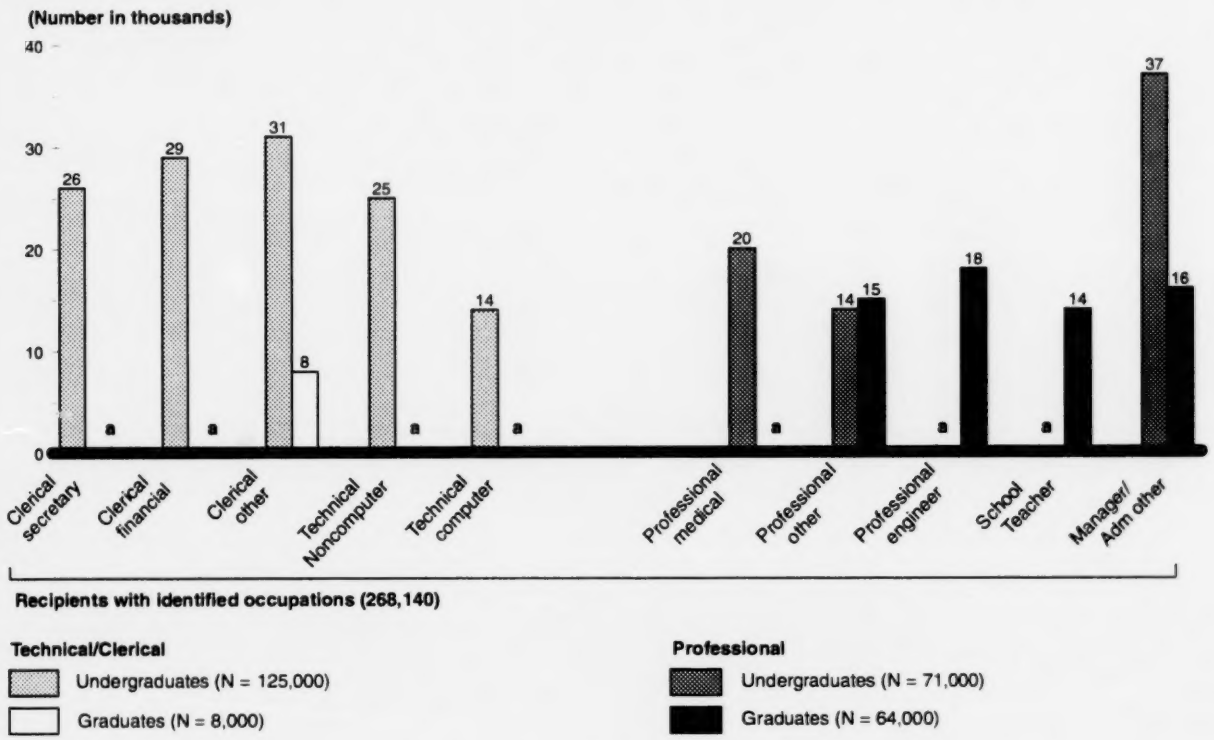
Source: GAO analysis of NPSAS:93 data.

Most Undergraduate Recipients Were in Clerical or Technical Occupations, and Most Graduates Were in Professional or Teaching Occupations

Our analysis of the NPSAS data also showed that most undergraduates—about 64 percent (125,000)—worked for private, for-profit employers in clerical or technical occupations, whereas most graduates—about 89 percent (64,000)—were in professional, manager/administrative, or teaching occupations.[16] Figure 7 shows the estimated number of section 127 recipients by identified occupations and student level.

[16]The occupations for 59 percent of the recipients—an estimated 195,960 undergraduates and 72,180 graduates—were identified. See appendix II for the specific estimates for the characteristics reported.

Figure 7: Estimated Section 127 Recipients by Identified Occupation and Student Level, Academic Year 1992-1993



[a]The response rate was too low to provide an estimate.

Note: Of an estimated 456,090 academic year 1992-93 recipients, the occupations for 59 percent were identified. Numbers do not add up to totals due to rounding.

Source: GAO analysis of NPSAS:93 data.

Tax Provisions Related to Employer-Provided Educational Assistance

Four provisions of the IRC describe the circumstances under which employers can exclude or deduct the cost of educational assistance from their employees' gross income. To the extent the assistance meets requirements of these provisions, the IRC provisions also allow qualifying employees to exclude the amount of the assistance from their federal

gross income. However, the requirements and those who can benefit from them vary by provision.

Four Tax Provisions Apply to Employer-Provided Educational Assistance

The following tax provisions apply to employer-provided educational assistance:

- Section 127: Educational Assistance Programs,
- Section 117: Qualified Scholarships,
- Section 132: Certain Fringe Benefits, and
- Section 62(a)(2)(A): Reimbursed Expenses of Employees.

These provisions generally allow employers to deduct the cost of educational assistance provided to their employers from their taxes as an allowable deduction for necessary business expenses. Further, such assistance if excludable from gross income, is not subject to social security or other federal employment taxes. These provisions also allow employees receiving the assistance to exclude the value of qualifying assistance from their federal gross income.

Certain Employer-Provided Educational Assistance Is Excludable

Section 127. This section allows employers to provide educational assistance to their employees without having to include the value of the assistance as part of the employees' gross income. Educational assistance under this provision does not have to be job-related; however, the assistance generally cannot be provided for education related to a sport, game, or hobby. Assistance excludable from taxes covers education expenses incurred by employees (tuition reimbursement programs) as well as by employers on their behalf or provided directly by employers to education providers. In addition, there must be written plans for the program and employees must be notified of the program's existence. The section also has a number of specific restrictions that must be met for the program to be considered valid.[17] Under section 127, taxpayers may exclude up to $5,250 a year of this assistance from their gross income. Employees whose assistance exceeds this cap can then use sections 62 or 132, provided they meet the job-relatedness requirements of those provisions. The recent extension of section 127 includes employer-provided assistance for undergraduate and graduate education, although it ends coverage of graduate assistance as of mid-1996.

[17]The program cannot offer employees a choice between educational assistance and taxable remunerations; it cannot discriminate in favor of highly compensated employees or their dependents as defined under section 414(q) of the IRC; and no more than 5 percent of the assistance may be for shareholders or owners who own more than 5 percent of the company.

Qualified Scholarships and Tuition Reductions Are Excludable

Section 117. This section allows qualifying employees of educational institutions to exclude the value of "qualified scholarship and tuition reductions" from their gross income.[18] Qualified scholarship and tuition reductions include tuition and related expenses, e.g., tuition and fees to enroll or attend an educational institution and fees, books, supplies, and equipment required for courses of instruction at an educational institution. Section 117 generally provides that

- the exclusion applies to scholarship and tuition reductions provided to employees for any education below the graduate level (except in the case of graduate student employees engaged in teaching or research activities for the institution);
- the exclusion also applies to scholarship and tuition reductions given to the employees' spouses or dependents;
- the institution may not discriminate in favor of highly compensated employees in providing tuition reductions; and
- the exclusion does not apply to amounts received as payment for teaching, research, or other services by the student required as a condition for receiving the reduction.

The scholarship or tuition reduction can be for job or nonjob-related education, and there is no limit on the value of assistance that can be provided.

Working-Condition Fringe Benefit Exclusion

Section 132. This section allows employees to exclude from their gross income employer-provided educational assistance if it is classified as a "working condition fringe benefit." According to the IRC, a working condition fringe benefit is any property or service provided to an employee to the extent that, if the employee paid for such property or services, that payment would be deductible under section 162 or 167.[19]

Section 132 generally provides that

- the educational assistance is allowable as an exclusion only to the extent that the expenses would have been deductible by the employee as a business expense under section 162 had the employee paid for the education; and
- an employer's cash payment to an employee requires the employee to (1) use the payment for expenses in connection with a prearranged

[18]According to Treasury regulations, the term "educational institutions" refers to institutions that maintain a faculty, curriculum, and an enrolled body of students.

[19]Section 167 pertains to depreciation and is not relevant to the issue of educational assistance.

activity or undertaking (for which a deduction is allowable under section 162), (2) verify that the payment is actually used for such expenses, and (3) return any part not used to the employer, otherwise the payment will not qualify as a working condition fringe benefit.

There is no limit on the value of assistance that can be provided, and the assistance can be for undergraduate or graduate education. The essential requirement is that the education be job-related, as defined by section 162. Employees would likely use this tax provision should the educational assistance they receive otherwise meet this provision's requirements and exceed the section 127 income exclusion cap of $5,250.

Employee Reimbursed Expenses May Be Excludable or Deductible

Section 62 (a)(2)(A). This section allows employees to exclude from gross income the value of educational assistance provided under an employer "accountable plan" for reimbursed business expenses. An accountable plan has three requirements that must be met: (1) there must a relationship to the business, i.e., meet the requirements of section 162,[20] (2) the expenses must be documented, and (3) employees need to return excess payments. There is no limit on the value of the assistance provided, and graduates and undergraduates are eligible. Employees would be able to use this tax provision should the educational assistance they receive meet the requirements of this section and exceed the section 127 income exclusion cap of $5,250.

If employer reimbursements for educational assistance are not made under an accountable plan, the value of the assistance generally cannot be excluded from an employee's gross income. However, if the value of the assistance is included in the employee's gross income, the employee can deduct eligible expenses under section 162. Section 162 allows an individual to deduct certain job-related educational expenses along with other miscellaneous itemized deductions from gross income, provided these itemized deductions exceed 2 percent of the individual's adjusted gross income.

Comparison of Application and Restrictions of Different Sections

The major differences between section 127 and sections 62, 117, and 132 are related to the type of education being supported, employee eligibility, limits on the value of assistance provided, and the ease of administration.

[20]As noted earlier, under Section 162, Trade or Business Expenses, the education must be job-related to be deductible: it has to maintain or improve the employee's skills as required by the employer or be required by the employer or law to keep present salary, status, or job. However, if the education qualifies the employee for a new trade or business or if it meets minimum education requirements of a trade or business, it is not deductible.

First, under section 127, employers can provide assistance for job and nonjob-related education and requires no distinction between them. Section 117 also applies to job and nonjob-related assistance. Sections 62 and 132 are more restrictive, requiring that educational assistance meet the business relationship requirements of section 162, that is, be job-related to be excluded from gross income. Second, the four sections differ regarding who is eligible for educational assistance. Employers determine which employees are eligible under sections 127, 62, and 132, provided that the employers abide by the nondiscriminatory requirements of the provisions. Section 117 applies only to employees of qualified educational institutions and their spouses and dependents. Third, the value of assistance that is provided and excludable from income is limited to $5,250 under section 127. There are no dollar amount limits under sections 62, 117, and 132. Table 3 summarizes major similarities and differences between Section 127 and the three other tax provisions relevant to employer-provided educational assistance.

Table 3: Major Similarities and Differences Between Section 127 and Other Educational Assistance-Related Tax Provisions

	Feature		
Tax provision	**Type of educational assistance excludable from income**	**Persons eligible**	**Dollar limit**
Section 127: Employer-provided educational assistance	Job- and nonjob related	Employees only	$5,250
Section 117: Scholarships and tuition reductions	Job- and nonjob related	Employees, spouses, and dependents	none
Section 62: Employee reimbursed expenses	Job-related only	Employees only	none
Section 132: Working condition fringe benefit	Job-related only	Employees only	none

Note: Assumes all other requirements of the given tax provision are met.

Source: GAO analysis of the IRC and Treasury regulations.

Administrative Complexity of Tax Provision Requirements Differs Among Four Provisions

Finally, section 127 and the three other provisions differ in terms of the administrative complexity of the tax provisions' requirements. According to IRS and association representatives we interviewed, section 127 is straightforward and simple relative to the other sections. Section 127 does not require the employer and employee to demonstrate nor document that the educational assistance is job-related, as do sections 62 and 132. The

job-relatedness requirements of section 162 that apply to sections 62 and 132 are not always clear. This lack of clarity has resulted in numerous rulings by IRS to further define what is meant by job-related education.

IRS reporting requirements are also different under section 127. Employers are required to file Form 5500 and its Schedule F with IRS to report information on the assistance. This information consists primarily of the number of employees, the number who are eligible for assistance, the number who received the assistance, and the amount of the assistance provided. Under section 127, employers are not required to document whether or not the assistance is job-related. On the other hand, association and corporate representatives told us that the requirements of sections 62 and 132 are burdensome because Treasury regulations require documentation such as an accountable plan or other job-related information. In addition, according to the IRC, employers are required to report the amount of nonjob-related assistance as part of employees' gross income on W-2s and to withhold income, unemployment, Social Security, and other employment taxes. Under all three sections, employees have to meet the documentation requirements set by their employers, e.g., provide receipts for course-related expenses.

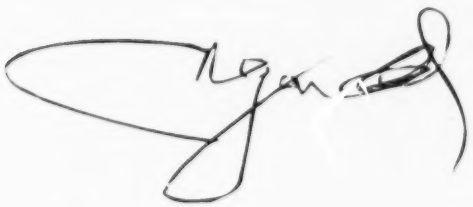
If employer-provided educational assistance is not excluded from an employee's income, the employee may still be allowed to deduct it as a business-related expense under section 162. The employee can deduct the value of the assistance if (1) the assistance meets the job-relatedness test of section 162 and (2) the employee itemizes deductions. The employee needs documentation to support any income tax deductions for educational expenses. Employees who do not itemize deductions, however, cannot claim the deduction and are required to pay tax on the nonexcludable assistance received. Therefore, educational assistance that is not excludable or deductible from an employee's income is to be reported and taxed.

Agency Comments

On November 21, 1996, we discussed our draft report with IRS officials who are responsible for administering the fringe benefit plans, including employer educational assistance reporting requirements. The officials, including the Acting Chief Compliance Officer, agreed with the IRS material in our report.

We are sending copies of this report to Chairmen and Ranking Minority Members of congressional committees that have responsibilities related to these issues, the Commissioner of Internal Revenue, and other interested parties. We will also make copies available to others upon request. The major contributors to this report are listed in appendix IV. Please contact me at (202) 512-9044 if you or your staff have any questions about this report.

Sincerely yours,



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Abbreviations

BLS	Bureau of Labor Statistics
IRC	Internal Revenue Code
IRS	Internal Revenue Service
NCES	National Center for Education Statistics
NPSAS	National Postsecondary Student Aid Study

Examples Illustrating IRS' Determination of Deductibility of Job-Related Educational Expenses as Business-Related Expenses

The following three examples illustrate how the Internal Revenue Service would determine whether job-related educational expenses would be deductible as business-related expenses under section 162 of the Internal Revenue Code (IRC). They are from the Department of the Treasury regulations covering section 162.

Examples of Determinations of Whether Job-Related Expenses Are Deductible Under IRC Section 162

Example 1: A person holding a bachelor's degree obtains temporary employment as a university instructor and undertakes courses as a candidate for a graduate degree. The person may become a faculty member only if he or she obtains a graduate degree and may continue to hold a position as instructor only so long as he or she shows satisfactory progress toward obtaining this graduate degree. Determination: The graduate courses taken by the person constitute education required to meet the minimum educational requirements for qualifying in his trade or business, and the expenses for these courses are therefore not deductible.

Example 2: An employee individual practicing a profession other than law, for example engineering, is required by his employer to obtain a bachelor of laws degree. So the employee attends law school at night and receives the degree. Determination: Though he intends to continue practicing his nonlegal profession as an employee, the expenditures made by him in attending law school are nondeductible because this course of study qualifies him for a new trade or business.

Example 3: A general medicine practitioner takes a 2-week course reviewing new development in several specialized fields of medicine. Determination: His expenses for the course are deductible because the course maintains or improves skills required by him in his trade or business and does not qualify him for a new trade or business.

Technical Appendix: Methodology for Analyzing IRS and NPSAS Data

Three Primary Sources Used: IRS, NPSAS, and BLS

To achieve our objective to report information on the characteristics of the employers providing educational assistance and the employees receiving it under of section 127 of the Internal Revenue Code, we used available data from three primary sources. We relied mainly on data from IRS's Form 5500 and its Schedule F to develop information about employers providing educational assistance. To develop information about employees, we relied primarily on NPSAS data. We supplemented employee information by using BLS reports on employee benefits. Details about each data source and dataset follow below.

We did not verify the validity of the data collected by IRS or the other agency study sponsors. However, if the reporting rate for a specific variable was less than 50 percent, we did not consider the data to be reliable and therefore did not include them in our analysis. Reporting rates for IRS and confidence intervals for NPSAS variables presented in this report are provided in tables II.1 to II.2.

IRS Data

Employers providing educational assistance under section 127 of the Internal Revenue Code are required to file Form 5500-C/R and its Schedule F (Form 5500). IRS provided GAO with data for 1992, 1993, and 1994 on employer-provided educational assistance that was extracted from these forms. The database included employer returns on employer characteristics, including the amount of assistance spent on educational assistance. These returns also provided data on employees, specifically the total number of employees and those employees eligible for and receiving educational assistance from the employer.

Form 5500 provides employer-specific information, including

- the employer identification number;
- the business code for the principal business activity that best describes the nature of the employer's business;
- the entity code which identifies the employer as one of the following: a single-employer plan, plan of controlled group of corporations or common control employers, a multi-employer plan, multiple-employer collectively bargained plan, or a multiple-employer plan;
- the company plan number; and
- the type of benefit plan, including fringe benefit plans, which requires filing Schedule F (Form 5500).

Schedule F provided us with employer and employee information, including

- employer identification number,
- business plan number,
- whether the employer's fringe benefit plan included an educational assistance program as well as a cafeteria plan,
- total number of employees,
- total number of employees eligible to participate in the educational assistance program,
- total number of employees participating in the educational assistance program, and
- total cost of the fringe benefit plan for the plan year, including the costs for section 127 assistance.

IRS does not define educational assistance in its instructions for completing the forms. Rather, it relies on employers to determine what educational assistance means based on the broad definition of educational assistance programs in section 127.

Our Analysis of IRS Data

We analyzed the most recently available IRS data—1992 through 1994. Though Schedule F was developed in 1991, it was not included in the tax packet sent to filers until the 1992 filing year. IRS officials told us they provided us with all data it had received and processed for 1992 and 1993. It also provided us with the 1994 data it had received and processed through May 31, 1996, which were the most recently available data. IRS officials stated the believed this represented about 90 percent of the returns it expected for that year. They considered this was sufficient to include in our analysis and we concurred.

We did not verify IRS's methodology in extracting data from returns. However, we did review the database to ensure that duplicates and non-relevant data were eliminated. Specifically, we developed computer programs to eliminate returns that were not exclusively for educational assistance and that were misreported duplications.

In addition, we found that the data reported to IRS and provided to us were incomplete. For example, 65 percent of the returns showing educational assistance provided in 1992 reported the total dollar amount of the

assistance. The reporting rates for the IRS data characteristics cited in this report, and their respective tables and figures, are shown in Table II.1.

Table II.1: Percentage of Employer Returns Filed With IRS Reporting Selected Data Characteristics, 1992-1994

	1992 returns		1993 returns		1994 returns	
Reported characteristic	**number**	**percent**	**number**	**percent**	**number**	**percent**
Figure 2: Reported dollar amount by employer size						
Amount of assistance provided—small employers	189	54%	231	64%	272	72%
Amount of assistance provided—medium employers	268	63	279	71	313	81
Amount of assistance provided—large employers	1,828	71	1,954	78	1,994	83
Figure 3: Number of employees eligible for and receiving assistance						
Number of employees eligible for assistance	3,317	93%	3,241	97%	3,159	98%
Number of employees receiving assistance	3,125	88	3,083	92	3,002	93
Figure 4: Number of recipients by employer size						
Number of employees receiving assistance: small employers	277	79%	298	82%	309	81%
Number of employees receiving assistance: medium employers	399	94	367	94	367	95
Number of employees receiving assistance: large employers	2,443	96	2,406	96	2,316	96

Note 1: References to figures refer to corresponding figures in the letter report.

Note 2: The number of employer returns submitted to IRS was 3,556 for 1992, 3,336 for 1993, and 3,234 for 1994.

Source: GAO analysis of IRS Form 5500 and related Schedule F data.

NPSAS Data

We used NPSAS data to develop information about employees receiving section 127 assistance. NPSAS is a comprehensive study that examines how students and their families pay for postsecondary education and provides other characteristics of the students. It includes nationally representative samples of undergraduate, graduate, and first-professional students,[21] students attending less than 2-year, 2-year, 4-year, and doctoral-granting institutions, as well as students who receive financial aid and those who do not. It also includes data taken from a sample of students' parents and information from educational institutions.

NPSAS was conducted for the Department of Education's National Center for Education Statistics for academic year 1992 to 1993. The NPSAS survey

[21]First professional refers to students who are in law school, medical school, or other first professional schools following graduation with a bachelor's degree.

design was both large and complex, according to the NPSAS methodology report.[22] Data on nearly 2,000 data elements were collected from a diverse set of respondents. Over 1,000 postsecondary institutions, 60,000 students, and 11,000 parents participated in the study. The target population was all students enrolled in postsecondary institutions in the United States, the District of Columbia, and Puerto Rico during the financial aid award year 1992-93 (terms beginning July 1, 1992, through June 30, 1993). NPSAS:93 was a stratified multistage probability sample of students enrolled in postsecondary institutions representing an estimated 18.5 million undergraduates and 2.7 million graduate and first-professional students.

Overview of NPSAS Design and Sampling

According to the NPSAS methodology report, the study design used a two-phase sampling selection process for institutions. First, geographic areas based on three-digit postal ZIP codes were selected as primary sampling units. Second, institutions were selected using two survey frames: The institution sampling frame was built from the 1990-91 Integrated Postsecondary Education Data System Institutional Characteristics file (IPEDS-IC), which was supplemented with the Office of Postsecondary Education Data System (OPE-IDS) file of institutions from the Stafford and Pell student aid programs as of April 15, 1992. Moreover, 22 strata were defined for the selection of institutions and two sampling strata were developed through the classification of institutions based on two criteria: (1) type of ownership or control, e.g., public, private/nonprofit, or private/for-profit institutions and (2) the length of time required to complete the highest degree offered, e.g., 4-year, 2-year, or less than 2-year.

A sampling of 1,386 institutions was allocated to the 22 strata and 2 sampling frames. Computer-assisted data entry software was used to abstract comprehensive information about a student's involvement with the institution. A total of 1,098 of the eligible institutions provided lists that could be used for student sample selection. Of these, student records were successfully extracted from 1,079. A total of 82,016 students were selected from enrollment files supplied by the eligible and participating institutions. They were administered a computer-assisted telephone interview. Of the 79,269 students ultimately eligible for the base survey, 66,096

[22]NCES, Methodology Report for the National Postsecondary Student Aid Study, 1992-93, Nov. 1995.

(83.4 percent, unweighted) were classified as respondents.[23] In addition, parents of a subsample of 18,129 students were interviewed by telephone.

The NPSAS estimates are subject to sampling and nonsampling errors. Sample errors exist in all sample-based datasets. Estimates based on a sample may differ from those based on a different sample of the same underlying population. Nonsampling errors are due to a number of sources, including but not limited to, nonresponse, inaccurate coding, misspecification of composite variables, and inaccurate imputations. The Data Analysis System procedures that compute the estimates required 30 or more unweighted cases. Some estimates were not calculated because fewer than 30 cases were in the NPSAS analysis file.

According to the NPSAS methodology report, the 1992-1993 data is not comparable with prior NPSAS estimates. Two design changes account for this: (1) different student enrollment period covered by the 1987, 1990 and 1993 studies and (2) inclusion of a small sample of students from Puerto Rico in 1990 and 1993.

Our Analysis of NPSAS Data

In using NPSAS data, we identified issues that would affect our analysis and reporting. NPSAS data are not comparable to IRS or BLS data primarily because of differences in the populations surveyed. Specifically, NPSAS estimates were based on responses to questions to eligible educational institutions based on a set of seven criteria. These criteria included that the institution offer more than just correspondence courses and offer at least one program requiring a minimum of 3 months or 300 clock hours of instruction. This precluded workshops, weekend seminars, and week-long computer courses, for example, that would be included in educational assistance reported to IRS. Further, low response rates and lack of estimates for certain variables also affected our ability to analyze and present employee data. For example, response rates were too low to estimate the number of undergraduates by all occupations identified by NPSAS, as figure 8—Estimated Section 127 Recipients by Occupation and Student Level, Academic Year 1992-1993—indicates.

The following table provides the data variables and the estimated amount of section 127 assistance and the relevant estimated number of students

[23]Unweighted response rates were computed as the ratios of the number of sampled units that completed the survey over the number of eligible units in the sample, according to the NPSAS methodology report. Ineligible institutions were deleted from the sample before data collection and were not included in the denominator when calculating response rates.

we analyzed and presented in this report. The confidence intervals and sampling errors for the individual variables were not available.

Table II.2: Variables and Estimated Amount of Section 127 Assistance and Relevant Number of Students, Academic Year 1992-1993

Variable	Estimated number (undergraduate)	Estimated number (graduate)
Amount of sec. 127 assistance	$345,908,384	$251,363,822
Number of recipients of sec. 127 assistance	336,880	119,210
Type of employer		
Private, for-profit employer	201,640	58,140
Private, non-profit employer	43,460	18,590
Federal government employer	22,330	9,520
State government employer	22,530	16,720
Local government employer	38,960	13,620
Occupation		
Clerical—secretarial	26,310	•
Clerical-financial	29,480	•
Clerical—other	30,610	8,400
Technical—noncomputer	24,760	•
Technical—computer	13,930	•
Professional—medical	20,110	•
Professional—engineer	•	18,130
Professional—other	14,080	15,160
School teacher	•	14,220
Manager/administrator—other	36,680	16,270
Occupation totals	195,960	72,180

Note: • indicates the survey response was too low to provide an estimate.

Source: GAO analysis of NPSAS 93 data

BLS Reports

We used BLS information to supplement data about employees' receiving section 127 assistance. BLS conducts surveys to obtain data on the incidence and provision of employee benefits, including educational assistance. The surveys collect data to determine the number of employees eligible for this assistance, not the use of it. We used information contained in the two most recent reports: Employee Benefits in Medium and Large Private Establishments, 1994 and Employee Benefits in Small Private Establishments, 1994.

Overview of BLS Survey Design and Sampling

The underlying surveys for the two reports we used covered all industries in the United States and the District of Columbia, except for farms and private households, as well as full- and part-time employees. The sample design for the surveys was a two-stage probability sample of detailed occupations. The first stage of sample selection was a probability sample of establishments. The second stage was a probability sample of occupations within those establishments.

To ensure that the sample was representative, a sample of newly opened establishments were added to the sample of existing ones. The sample of establishments was selected by first stratifying the sampling frame by industry group, and then by region and establishment employment. The industry groups usually consist of 3-digit Standard Industrial Classification groups, as defined by the Office of Management and Budget. The number of sample establishments allocated to each stratum reflected the ratio of employment in the stratum to employment in all sampling frame establishments. Thus, a stratum that contained 1 percent of the total employment within the scope of the survey received approximately 1 percent of the total sample establishments. Each sampled establishment within an industry group had a probability of selection proportional to its employment.

The survey design used an estimator that assigned the inverse of each sample unit's probability of selection as a weight to the unit's data at each of the two stages of sample selection. Weight-adjustment factors were applied to the establishment data. For the survey of medium and large private establishments, the first factor was introduced to account for establishment nonresponse, and a second poststratification factor was introduced to adjust the estimated employment totals to actual counts of the employment by industry for the survey reference date. For the survey of small private establishments, a third factor for occupational nonresponse was applied.

The statistics in these reports are estimates derived from a sample of usable occupation quotes selected from the responding establishments. They are not tabulations based on data from all employees in small and medium and large establishments within the scope of the survey.[24] Consequently, the data were subject to sampling and nonsampling errors.

[24]Small establishments employ fewer than 100 employees, and medium and large establishments employ 100 or more employees.

Data for the employee benefits surveys in small private establishments were collected from November 1993 to October 1994 and in medium and large private establishments from November 1992 to October 1993. The 2,135 responding small establishments yielded 6,489 occupational quotes for which data were collected. This resulted in an estimated 35,909,558 full-time workers and 12,716,611 part-time workers in small establishments who were within the scope of the survey. The 2,325 responding medium and large establishments yielded 13,012 occupational quotes for which data were collected. This resulted in an estimated 28,728,207 full-time workers and 5,564,940 part-time workers in medium and large establishments who were within the scope of the survey. BLS used four procedures to adjust for missing data from refusals from small establishments and three procedures to adjust for missing data from refusals from medium and large establishments.

Our Use of BLS Data

We used BLS data to report on the estimated number of all full-time and part-time employees and those eligible for educational assistance. We developed information on the eligibility of full-time employees in small private and medium and large private establishments for job-related and nonjob-related assistance using table 4 from the 1994 report on small establishments and table 4 from the 1993 report on medium and large establishments. We developed information about the eligibility of part-time employees in small and medium and large establishments for job-related and nonjob-related assistance using tables 80 and A.2 from the 1994 report on small establishments and tables 207 and A.2 from the 1993 report on medium and large establishments. Table II.3 shows the confidence intervals and sampling errors at the 95-percent level for the BLS estimates we used for full-time and part-time employees.

Table II.3: Confidence Intervals and Standard Errors for BLS Estimates Used

	Small establishments			Medium/Large establishments		
	Percentage	Confidence interval	Standard error	Percentage	Confidence interval	Standard error
Full-time employees eligible for job-related education	37%	31.8 - 42.2%	2.6	72%	68.6 - 75.4%	1.7
Full-time employees eligible for nonjob-related education	6	3.2 - 8.8%	1.4	22	18.5 - 25.5%	1.75
Part-time employees eligible for job-related education	15	10.6 - 19.4%	2.2	35	31.1 - 38.9%	1.95
Part-time employees eligible for nonjob-related education	3	1.4 - 4.6%	.8	8	5.7 - 10.3%	1.15

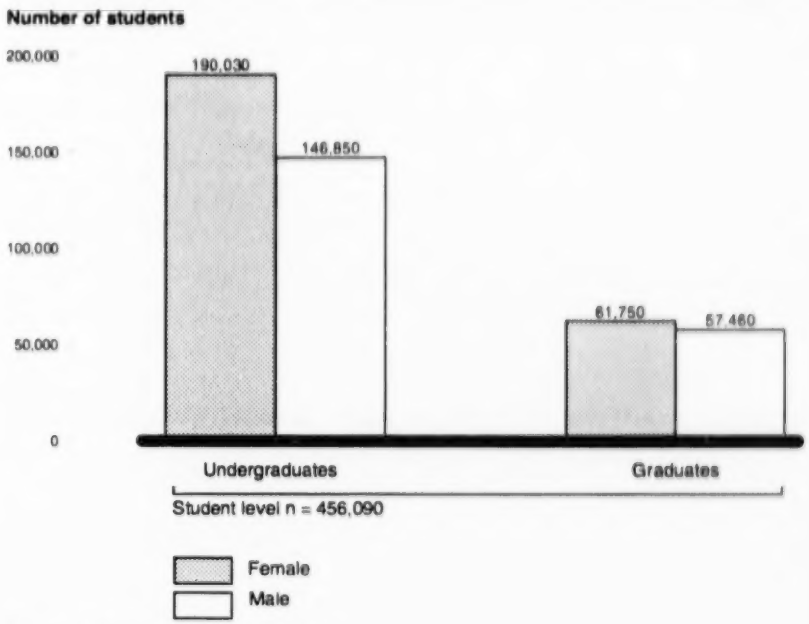
Source: BLS reports

Additional Information About Employees

Analysis of NPSAS and BLS Data Revealed Additional Information

Our analysis of NPSAS data showed that just over half of undergraduates and graduates that received section 127 assistance were female. Of the 336,880 undergraduates, 56 percent were female. Of the 119,210 graduates, 52 percent were female. Figure III.1 shows the estimated number of section 127 recipients by gender and student level.

Figure III.1: Estimated Number of Section 127 Recipients by Gender and Student Level, Academic Year 1992-1993



Source: GAO analysis of NPSAS 93 data.

Medium and Large Employers Had More Than Twice the Rate of Educational Assistance Eligibility as Small Employers

According to BLS data, medium and large employers (100 or more employees) were more likely than small employers to consider employees eligible for educational assistance.[25] Of the estimated 28.7 million full-time employees of medium and large employers, BLS estimated that 72 percent (20.8 million) were eligible for job-related educational assistance and that of the 35.9 million full-time employees at small employers, it estimated 37 percent (13.4 million) were eligible. The percentage difference is more pronounced when looking at eligibility for nonjob-related educational

[25]BLS recognizes that eligibility criteria for educational assistance, such as seniority, vary by employer, and it therefore relies on employers determining employee eligibility.

assistance: an estimated 22 percent (6.3 million) of full-time employees at medium and large employers were eligible for nonjob-related educational assistance compared to 6 percent (2 million) at small employers were eligible. (Information on part-time employees is in appendix III.)

Similarly, the percentage of part-time employees of medium and large employers eligible for educational assistance was more than twice that of those of small employers. BLS estimated that 35 percent (1.9 million) of the estimated 5.5 million part-time employees of medium and large employers were eligible for job-related education and that 15 percent (1.9 million) of about 12.7 million part-time employees of small employers were eligible. BLS also estimated that about 8 percent (about 440,000) part-time employees of medium and large employers were eligible for nonjob-related educational assistance compared to about 3 percent (almost 400,000) part-time employees of small employers were eligible.

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